

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY¹
COMMENT ON
DECEMBER 9, 2009 DRAFT REPORT

December 11, 2009

To the Economic and Allocation Advisory Committee:

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¹ SCPPA is a joint powers authority. The members are Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles Department of Water and Power, Imperial Irrigation District, Pasadena, Riverside, and Vernon. This comment is sponsored by Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Imperial Irrigation District, Pasadena, and Riverside.

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The Southern California Public Power Authority (“SCPPA”) sets forth below a somewhat expanded version of the points that SCPPA raised in its December 11, 2009 oral comments to the Economic and Allocation Advisory Committee (“EAAC” or “Committee”) regarding the December 9, 2009 Draft Report. In summary:

- The price signal that the Committee wants to send to electricity and fuel consumers should reflect the cost of carbon as revealed through the cap-and-trade auctions, not the cost of the complementary measures.
- Allowance value should be used to support utility investments in complementary measures that generate concrete emission reductions.
- The Draft Report should be revised to correct statements about the electricity prices of utilities that have coal-fired generation in their resource mix.
- The Draft Report should identify precisely which discretionary taxes the Committee believes should be offset with allowance value.
- The Draft Report should explain the tax consequences of various options and the recommended approaches.

I. THE PRICE SIGNAL THAT THE COMMITTEE WANTS TO SEND TO ELECTRICITY AND FUEL CONSUMERS SHOULD REFLECT THE COST OF CARBON AS REVEALED THROUGH THE CAP-AND-TRADE AUCTIONS, NOT THE COST OF THE COMPLEMENTARY MEASURES.

The Draft Report repeatedly mentions the need to send “strong price signals” to consumers. The Draft Report should identify more precisely the costs that the Committee believes should be signaled to consumers. Presumably, the price signal should reflect the cost of carbon as revealed through the cap-and-trade auction.

Under the Air Resources Board (“ARB”) Scoping Plan, electricity consumers are going to be exposed to another cost which would be substantial: the cost of implementing complementary measures. Some of those measures like the Renewal Portfolio Standard (“RPS”) and the California Solar Initiative (“CSI”) are very high on the marginal emission abatement curve.

The cost of undertaking the complementary measures is *not* the cost of carbon. Accordingly, the Draft Report should be revised to make it clear that while the price signal about the *cost of carbon* should not be muted, an appropriate use of allowance value would be to offset the cost of complementary measures, some of which would never be implemented if left solely to market forces.

II. ALLOWANCE VALUE SHOULD BE USED TO SUPPORT UTILITY INVESTMENTS IN COMPLEMENTARY MEASURES THAT GENERATE CONCRETE EMISSION REDUCTIONS.

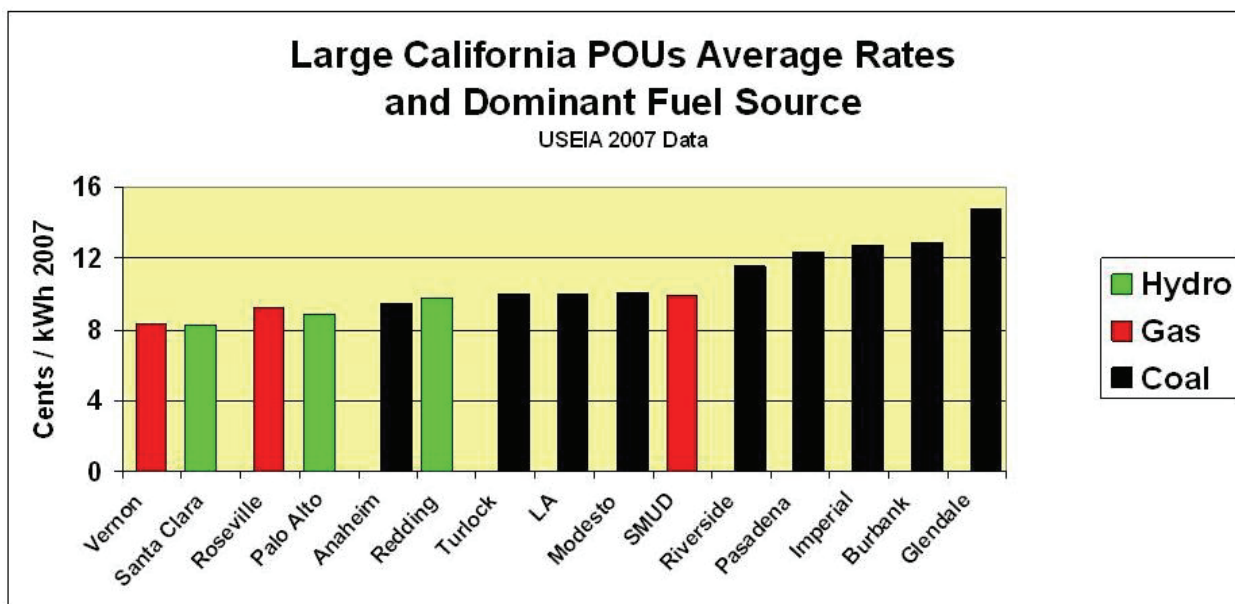
Given that the price signal that would be sent to consumers should be based on the cost of carbon as revealed through the cap-and-trade auction and *not* on the cost of the complementary measures, the Draft Report should be expanded to make it clear that an appropriate use of allowance value would be to support utility investments in the complementary measures.

Insofar as the goal should be to send a price signal about the cost of carbon, not the cost of the complementary measures, the California Public Utilities Commission (“CPUC”) for investor owned utilities (“IOUs”) and governing boards for publicly owned utilities (“POUs”) should be permitted flexibility to use allowance value to fund activities undertaken in compliance with the complementary measures or to moderate the rate impact of undertaking the complementary measures.

III. THE DRAFT REPORT SHOULD BE REVISED TO CORRECT STATEMENTS ABOUT THE ELECTRICITY PRICES OF UTILITIES THAT HAVE COAL-FIRED GENERATION IN THEIR RESOURCE MIX.

The November 9, 2009 Draft Report says at pages 14, 34, and 56 that the customers of southern California POU's have “enjoyed relatively low electricity prices” because of their access to coal-fired generation. The report goes on to observe that the southern California POU's “may experience larger changes in absolute prices relative to LDCs with lower emitting supply,” but they “start out with prices that are less.” Draft Report at 14.

There are a variety of reasons why the rates of POU's, including the rates of southern California POU's, tend to be lower than the rates of IOU's. The primary reason is that the POU's have a lower cost of capital. Their rates do not include a component for return on equity and associated taxes, and their debt costs are lower. It would be more appropriate to compare southern California POU rates to northern California POU rates rather than to IOU rates. That comparison shows that southern California POU rates are similar or higher than the northern California POU rates:



The advent of the cap-and-trade program under AB 32 should not be used as a tool to eliminate the benefits that consumers in POU service territories derive as a result of being served by utilities that, among other things, have a lower cost of capital than the IOUs.

For a discussion about why coal-fired generation is included in the SPPA members' resource mix, please see SPPA's September 28, 2009 Comment to the EAAC. Both geographical and historical factors impelled the SPPA members to install-fired generation. At the time, coal-fired generation was being promoted as a matter of national policy.

IV. THE DRAFT REPORT SHOULD IDENTIFY PRECISELY WHICH DISCRETIONARY TAXES THE EAAC BELIEVES SHOULD BE OFFSET WITH ALLOWANCE VALUE.

The Draft Report should be clarified to explain precisely which discretionary taxes the EAAC would offset with allowance value. Raising electricity and fuel prices will, as the EAAC has repeatedly recognized, tend to be regressive. Cutting sales taxes would tend to mitigate that regressivity, while cutting marginal income tax rates or capital gains taxes would tend to aggravate the regressivity. Thus, SPPA urges the EAAC to specify which discretionary taxes it believes should be cut and explain the basis for the selection.

V. THE DRAFT REPORT SHOULD EXPLAIN THE TAX CONSEQUENCES OF VARIOUS OPTIONS AND THE RECOMMENDED APPROACHES.

The tax consequences of various allowance and allowance value allocation options can differ substantially. For example, dividends to household would most likely be taxed as income by the federal government. As a result, a portion of allowance value would be transferred from California to the federal government. Conversely, if consumers received allowance value in the form of reduced electricity bills, consumers would avoid being taxed on the allowance value that was passed through to them.

Given the potential significance of the tax consequences of various options, SCPPA urges the Committee to explain the tax consequences of the various options for allocating allowances and allowance value. Particularly, the Committee should explain the tax consequences of its recommended approaches. If the recommended approaches are not tax advantaged, the Committee should explain the rationale for selecting less tax advantaged approaches instead of more tax advantaged approaches.

VI. CONCLUSION.

SCPPA appreciates the opportunity to present its views orally at the December 11, 2009 EAAC meeting/conference call, and SCPPA appreciates the opportunity to present these written follow-up comments.

Respectfully submitted,

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Dated: December 11, 2009

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